

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF SOUTH CENTRAL BELL)	
TELEPHONE COMPANY TO RESTRUCTURE AND)	CASE NO. 10402
REPRICE ITS 1.544 MEGABIT SERVICE)	

O R D E R

On September 8, 1988, South Central Bell Telephone Company ("South Central Bell") made a tariff filing with the Commission to restructure and reprice its 1.544 Megabit Service. South Central Bell's 1.544 Megabit Service is an intraLATA¹ private line service and handles simultaneous two-way transmission of high speed digital signals at DS1 data rates of 1.544 Megabits per second. The proposed tariff changes are to rename the service to MegaLink Service, add nonrecurring rate elements for future service requests, restructure the interoffice channel rate elements, and to introduce a rate stabilizing tariff structure. By Order dated October 11, 1988, the Commission suspended the tariff until March 11, 1989.

Several motions for intervention were filed and granted. The intervenors in this case are: AT&T Communications of the South Central States, Inc. ("AT&T"), the Attorney General of the Commonwealth of Kentucky ("AG"), and MCI Telecommunications Corporation ("MCI").

¹ Local Access and Transport Area.

Both South Central Bell and AT&T submitted written testimony. A hearing was held on January 31, 1989. Oral testimony was presented by John F. Dorsch, Operations Manager in the Rates and Economics Department of South Central Bell, and by L. G. Sather, Staff Manager in the Marketing Plans Implementation Organization of AT&T.

On March 3, 1989, South Central Bell filed its responses to oral requests made at the hearing of January 31, 1989. With the information, South Central Bell filed a petition for confidential treatment of certain responses consisting of Question 4A, Items 2 through 6 (attachments), 8 (attachment), 10 and 11 (attachments), and Question 6 (attachment). The Commission is of the opinion that the petition should be granted pursuant to 807 KAR 5:001, Section 7.

AT&T's position, as contained in Mr. Sather's testimony, is that the Commission should require South Central Bell to remove all resale restrictions from its digital private line tariffs. By so doing, AT&T believes that this would ensure that South Central Bell's digital private line offerings are available to all customers, including interexchange carriers, at equal costs and under identical terms and conditions. The Commission is of the opinion that the removal of resale restrictions would be premature in view of its investigation in Administrative Case No. 323.² Therefore, the Commission will not order that MegaLink

² An Inquiry into IntraLATA Toll Competition, an Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality.

Services be made available for resale.

To support its tariff filing, South Central Bell provided a cost study based on incremental, forward-looking costs. This type of study considers only those costs which would change as a result of the decision to offer the service, and therefore, does not include allocations of joint or common costs which would be unaffected by this decision. South Central Bell is of the opinion that such allocations are inappropriate because "(a)rbitrarily allocated costs give no consideration to the benefit of adding a service, eliminating a service, or changing the price of an existing service."³ The Commission agrees that an incremental cost-of-service study is appropriate for determining the minimum price at which to offer a competitive service. However, joint or common costs must be recovered, and intuitively, the fairest way of recovering these costs is to allocate them to all services. As the proposed rates do recover incremental costs, as well as provide some contribution to joint or common costs, the Commission is of the opinion that the tariff should be approved. However, in future tariff filings which involve new or changed rates, the Commission will require South Central Bell to identify a fair allocation of common costs by providing a cost-of-service study based on fully allocated,

³ South Central Bell's response to Item 3b of the Commission's January 6, 1989 Data Request.

embedded costs, including any new investments or expenses that will be required to provide the service. The Commission recognizes that it would not be practical in all situations to base rates on fully allocated costs. For instance, the Commission's policy objective of universal service requires that basic local service rates remain at affordable levels. As these rate levels are determined by residual pricing, the residual would be minimized if the contribution from other services was maximized. In other situations, a service may not be able to compete at rates based on fully allocated costs, but nevertheless, it would be economically beneficial to provide the service as long as it recovered incremental costs and some portion of common costs. If this is the situation, market-based pricing would be appropriate provided that this pricing is supported by market demand studies as well as by an incremental cost study. This type of analysis will not generally be required, although it may be specifically requested, if South Central Bell's pricing is simply a reflection of the Commission's policy, such as the residual pricing of basic local service. Nothing contained herein should be construed to mean that the Commission is requiring South Central Bell to file rates based on any specific methodology, but instead provides direction as to the types of cost support expected in future tariff filings.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being sufficiently advised, is of the opinion and finds that:

1. The petition for confidential treatment filed by South Central Bell on March 3, 1989 should be granted pursuant to 807 KAR 5:001, Section 7.

2. AT&T's request to require South Central Bell to remove all resale restrictions from its digital private line tariffs should be denied.

3. The proposed MegaLink tariff should be approved.

4. Future tariff filings, as described in this Order, should be supported by fully allocated, embedded cost-of-service studies.

5. Market-based pricing should also be supported by market demand studies as well as by incremental cost-of service studies, as described in this Order.

6. Within 30 days from the date of this Order, South Central Bell should file revised tariff pages consistent with the terms and conditions, and rates and charges specified in Appendix A, attached and incorporated hereto.

IT IS THEREFORE ORDERED that:

1. The petition for confidential treatment filed by South Central Bell on March 3, 1989 be and hereby is granted.

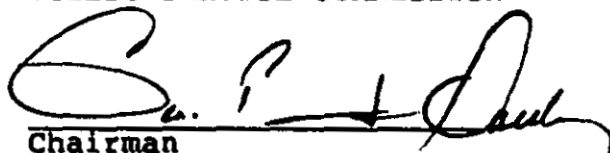
2. AT&T's request to require South Central Bell to remove all resale restrictions from its digital private line tariffs be and hereby is denied.

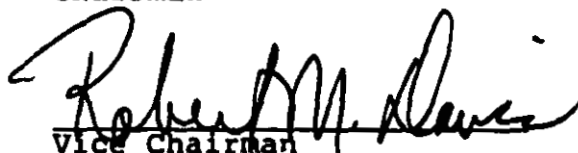
3. The proposed MegaLink tariff be and hereby is approved.

4. Within 30 days from the date of this order, South Central Bell shall file revised tariff pages consistent with the terms and conditions, and rates and charges specified in Appendix A.

Done at Frankfort, Kentucky, this 10th day of April, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 10402 DATED 4/10/89

The following rates and charges are prescribed for the customers in the area served by South Central Bell Telephone Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

GENERAL SUBSCRIBER SERVICES TARIFF

A1. DEFINITION OF TERMS

Link

The term "Link" refers to the use of a single local channel and/or an interoffice/interexchange channel as one segment (partial channel) of a two-point or multipoint arrangement when at least one other segment of the service arrangement is served by MegaLink Service, MegaLink Channel Service, FlexServ Service, or LightGate Service.

PRIVATE LINE SERVICES TARIFF

B2. REGULATIONS

B2.5 Definitions

Link

The term "Link" refers to the use of a single local channel and/or an interoffice/interexchange channel as one segment (partial channel) of a two-point or multipoint arrangement when a least one other segment of the service arrangement is served by MegaLink Service, MegaLink Channel Service, FlexServ Service, or LightGate Service.

B.7 DIGITAL NETWORK SERVICE

B7.1 MegaLink Service

B7.1.1 General

- A. MegaLink Service is furnished for Private Line IntraLATA communications by the Company.
- B. MegaLink Service is a service for the transmission of digital signals only and using only digital transmission facilities.
- C. MegaLink Service provides for the simultaneous two-way transmission of isochronous digital signals at DSI speeds of 1.544 Mbps. where facilities are available.
- D. To ensure satisfactory operation, the terminal equipment provided by the customer must be compatible with the DSI/1.544 Mbps. channel facility provided by the Company. The technical specifications and standard network interfaces for DSI Service are contained in Bell Communications Research Technical Reference Publication 62411. This publication is available from Bell Communications Research, 60 New England Avenue, Piscataway, NJ 08854-4196.
- E. Unless specified following, the regulations for MegaLink Service specified herein apply in addition to the regulations set forth in Section B2 preceding.
- F. The rates specified for MegaLink Service in B7.1.3 following contemplate the provision of a digital quality facility over existing interoffice carrier equipment and/or exchange cable facilities compatible with this service. If such equipment, new facilities or changes to existing facilities are required for the provision of this service, a special construction charge based on the cost incurred to make the changes will apply in addition to the rates for MegaLink Service.

B7.1.2 Regulations

A. Description of Service

- 1. MegaLink Service is furnished for the simultaneous two-way transmission of serial, Bipolar Return-to-Zero, isochronous digital signals at a speed of DSI/1.544 Mbps. between two-points located within a LATA.
- 2. Multipoint service is not available.
- 3. A minimum initial service period of 12 months is required.

4. In addition to month-to-month rates, MegaLink Service is available under contractual rate periods of 36 months, 60 months, or 84 months.
5. Connection of DSI/1.544 Mbps. communications systems provided by others may be made on a permissive basis as provided for in Section B2. The Company does not represent its MegaLink Service as adapted for such connections, and shall not be responsible for the through transmission of signals, or the quality of such transmission on such connections.
6. A Channel Service Unit or appropriate Termination Equipment provided by the customer is required at a customer's or authorized user's premises to perform such functions as:
 - proper termination of the service
 - amplification
 - signal shaping
 - remote loop-back
7. The design, maintenance, and operation of MegaLink Service contemplates communications originating and terminating as (1) a customer premises to customer premises channel via the Company's Serving Wire Center - and/or through remote Serving Wire Centers; (2) a customer premises to the Serving Wire Center - and/or to remote Serving Wire Centers - partial channel (link); or (3) a Central Office to Central Office (interoffice) partial channel (link).
8. MegaLink Service may also be furnished as links (partial channels) when connected to other services such as ESSX Service, FlexServ Service, LightGate Service, another MegaLink Service and/or MegaLink Channel Service.

Note: Connection from MegaLink Service to ESSX Service may not be available from all Serving Wire Centers.
9. All appropriate rates specified in other tariff sections are in addition to the monthly rate per package or single channel for MegaLink Service specified in this Tariff.

B. Definitions

Channel Service Unit

The term "Channel Service Unit" denotes equipment provided by the Customer to terminate a digital facility on the customer's, or user's premises.

Digital Local Channel

The term "Digital Local Channel" denotes a path for MegaLink Service furnished from the customer's premises to their Serving Wire Center.

DSI

This denotes a channel service expressed in terms of its digitally encoded data bit rate in accordance with the North American hierarchy of digital signal levels. It has a 1.544 Mbps. transmission data rate, and provides for the two-way simultaneous transmission of isochronous timed, Bipolar Returned-to-Zero bit stream format. Unframed signal formats are not permitted or compatible with Company equipment. The required format and interface specifications are contained in Bell Communications Research Technical Reference Publication 62411.

Interoffice Channel

The term "Interoffice Channel" denotes a path (or paths) for digital transmission between Company Serving Wire Centers within a LATA. An interoffice channel may be furnished in such manner as the Company may elect.

C. Application of Rates

1. Digital Local Channels furnished between a Serving Wire Center and the customer's premises will be charged at rates based on the first 1/2 mile and each additional 1/2 mile for the airline distance measured between the Serving Wire Center and the customer's premises.
2. Interoffice Channels furnished between Central Offices will be charged at rates based on airline distance between the Central Offices.
3. MegaLink Service is available on a month-to-month basis or under contract for rate periods of 36 months, 60 months, or 84 months under conditions specified in the Channel Services Payment Plan section B2.4 of this Tariff except as modified following. Contract rate increases are subject to the stipulations of 4 following.

4. MegaLink Service rates under contract will not be increased by Company initiative until the contract period expires. Rates in effect at the time the service is installed and/or when the Company is notified in writing of the subscriber's choice of payment period option will be applicable until the contract expires. At the expiration date of the customer's payment period option, the customer may select a new payment period option at current rates or revert to current rates on a month-to-month basis.
5. A Termination Liability Charge is applicable at the date of termination and is reduced by 1/36, 1/60 or 1/84 per month of service to the customer from the date of installation. This factor is dependent on the contract period subscribed to. The Termination Charge basis will be equal to 36, 60, or 84 times the monthly rate provided under contract.
6. Airline distance between Company central offices shall be developed using the methodology and Vertical and Horizontal coordinates stated in B3.1.3.B of this Tariff. Fractional mileage shall be rounded up to the next full mile.

D. Connections

1. Customer-Provided Terminal Equipment, Customer-Provided Derivation Equipment, and Customer-Provided Communications Systems may be connected to MegaLink Service when such connection is made in accordance with the provision specified in 2, 3, and 4 following.
2. Responsibility of the Company
 - a. The responsibility of the Company shall be limited to the furnishing and maintenance of MegaLink Service to that point on the customer's or joint-user's premises where provision is made for the connection of customer-provided equipment. If the customer requires a different location in the same building, it can be provided under the Premises Network Wiring Charge found in Section B3 of this Tariff.
 - b. The Company shall not be responsible for installation, operation, or maintenance of any terminal equipment or communications systems provided by a customer or joint-user. MegaLink Service is not represented as adapted for the use of such equipment or system. Where such equipment or system is connected to Company facilities, the responsibility of the Company shall be limited to the furnishing of facilities suitable for MegaLink

Service and to the maintenance and operation in a manner proper for such digital service. The Company shall not be responsible for:

- the through transmission of signals generated by such equipment or system, or for the quality of or defects in such transmission, or
 - the reception of signals by such equipment or systems, or
 - damage to terminal equipment or communications systems provided by a customer or authorized user due to testing.
- c. The Company shall not be responsible to the customer or joint-user if changes in any of the facilities, operations or procedures of the Company utilized in the provision of MegaLink Service render any facilities or equipment provided by a customer or joint-user obsolete, or require modification or alteration of such equipment or system, or otherwise affects its use or performance.
- d. The Company undertakes to maintain and repair the facilities which it furnishes. The customer or joint-user may not rearrange, disconnect, remove or attempt to repair any equipment installed by the Company without prior written consent of the Company.

3. Responsibility of the Customer

- a. The customer or joint-user is responsible for installing and testing his premises equipment or facilities to insure that when they are connected with MegaLink Service such equipment or facilities are operating properly.
- b. The operating characteristics of the customer or joint-users premises equipment or facilities shall be such as not to interfere with any of the services offered by the Company. Such use is subject to the further provisions that the equipment provided by a customer or joint-user does not: endanger the safety of Company employees or the public; damage, require change in or alteration of the equipment or other facilities of the Company; interfere with the proper functioning of such equipment or facilities; impair the operation of the Company's facilities or otherwise injure the public in its use of the Company's services. Upon notice from the Company that the equipment provided by a customer or joint-user is causing or is likely to cause such

hazard or interference the customer shall take such steps as shall be necessary to remove or prevent such hazard or interference.

- c. The customer's responsibility shall include cooperative testing with the Company as may be necessary. Where regeneration and/or equalization adjustments or changes may be required to compensate for rearrangements and/or changes in outside plant facilities, the customer or joint-user will be responsible for all expenses incurred in changes to his premises equipment.
 - d. The customer shall be responsible for payment of a Trouble Determination Charge as set forth in Section B4 preceding for visits by the Company to the premises of the customer or joint-user where the service difficulty or trouble report results from the use of equipment or facilities provided by customer or joint-user.
4. Connection of Customer-Provided Terminal Equipment, Customer-Provided Derivation Equipment and Customer-Provided Communications Systems
- a. The following provisions will apply:
 - (1) Customer-Provided Terminal Equipment and/or Customer-Provided Communications Systems may be connected at the premises of the customer or joint-user to MegaLink Service.
 - (2) The customer or joint-user, by use of its own derivation equipment, may create digital bit streams from a MegaLink Service and such equipment may be connected for transmission of such bit streams when connected thru a customer-provided Channel Service Unit/Termination Equipment.
 - (3) The undertaking of the Company is to furnish MegaLink Service as ordered. The customer is required to provide the Channel Service Unit/Termination Equipment as specified in d following.
 - b. Connections to other services furnished by the Company to the same customer:

MegaLink Service furnished by the Company may be connected by the customer to another service or to other services furnished by the Company as specified

in D.2 and 3 preceding. Connected services are subject to all rules and regulations governing the provisioning of those services.

- c. Connections to other services furnished by the Company to different customers:

The customer may connect, at the premises of the customer or joint-user, to another MegaLink Service or other services furnished by the Company to different customers as specified in D.2 and 3 preceding. Connected services are subject to all rules and regulations governing the provisions of those services.

- d. Connection of Channel Service Units:

A Channel Service Unit or appropriate Termination Equipment must be provided by the customer to connect a Company-provided digital facility. In accordance with Part 68 of the FCC's Rules and Regulations, new grandfathered Channel Service Unit/Termination Equipment may be connected, moved, and reconnected until June 30, 1987. After this date only registered and previously connected grandfathered Channel Service Unit/Termination Equipment may be connected to Company-provided digital facilities.

Grandfathered Channel Service Unit/Termination Equipment must comply with the requirements outlined in Bell Communications Research Technical Reference 62411, dated September, 1983. This publication is now available from Bell Communications Research, 60 New England Avenue, Piscataway, NJ 08854-4196. Registered technical requirements for Channel Service Unit/Termination Equipment are outlined in Part 68 of the FCC's Rules and Regulations. A copy may be obtained from the Federal Communications Commission, Room BB300, Washington, D.C. 20054

- 5. Deleted. Deleted material referred to accessories.

E. Payment Arrangements and Credit Allowance

- 1. The minimum period for which month-to-month service is furnished and for which charges are applicable is 12 months.
- 2. Suspension of service is not allowed.

B7.1.3 Rates and Charges

A. A Digital Local Channel is furnished between a Serving Wire Center and the customer's premises. Rates are based on the airline distance between the Serving Wire Center and the customer's premises.

1. Digital Local Channel, each

	<u>Non- recurring Charge</u>	<u>Month to Month</u>	<u>36 Months</u>	<u>60 Months</u>	<u>84 Months</u>
a. First 1/2 mile	\$300.00	\$85.00	\$75.00	\$75.00	\$75.00
b. Each additional 1/2 mile, or fraction thereof		55.00	52.00	49.00	46.00

B. Interoffice Channels furnished between Central Offices. Rates are based on airline distance between Central Offices.

Note: Refer to B3.1.3.B of this Tariff for mileage measurement methodology and wire center Vertical and Horizontal coordinates.

1. Interoffice Channel, each channel 0-8 miles

	<u>Non- recurring Charge</u>	<u>Month to Month</u>	<u>36 Months</u>	<u>60 Months</u>	<u>84 Months</u>
a. Fixed monthly rate	\$125.00		\$75.00	\$75.00	\$75.00
b. Each airline mile, or fraction thereof		\$83.00	43.00	41.00	39.00

2. Interoffice Channel, each channel 9-25 miles

a. Fixed monthly rate	125.00	80.00	85.00	85.00	85.00
b. Each airline mile, or fraction thereof		73.00	41.00	39.00	37.00

3. Interoffice Channel,
each channel over 25
miles

	<u>Non- recurring Charge</u>	<u>Month to Month</u>	<u>36 Months</u>	<u>60 Months</u>	<u>84 Months</u>
a. Fixed monthly rate	125.00	100.00	110.00	110.00	110.00
b. Each airline mile, or fraction thereof		71.00	39.00	37.00	35.00

C. Move Charge

A move charge, per MegaLink Service Channel, applies for each Digital Local Channel moved to a new location in the same building. This move charge is equal to the Digital Local Channel Nonrecurring Charge, Service Change Charge - Inside Moves, plus Premises Visit Charges.

D. Service Connection Charges

1. Service Establishment Charges are applicable, for each MegaLink Service channel ordered, for receiving and recording information and/or taking action in connection with a customer's request, and processing the necessary data. These charges include engineering design, common centralized testing and coordination.

Note: Refer to B7.1.2.A.7 of this Tariff for description of MegaLink Service channels.

2. Service Change Charges are applicable for receiving and recording information and/or taking action in connection with a customer's Inside Move or transfer of service responsibility request, for processing the necessary data on an existing MegaLink Service channel. A service Change Charge is applicable for each MegaLink Service channel associated with the customer request (in lieu of a Service Establishment Charge).

Note: Refer to B7.1.2.A.7 of this Tariff for description of MegaLink Service channels.

3. Premises Visit Charges are applicable, per Digital Local Channel, for the termination of a channel at a customer's premises or for inside moves. Only one

Premises Visit Charge applies when more than one channel service of the same type is terminated or moved at the same premises at the same time.

4. Connection charges are applicable for the connection and testing of Digital Local Channels and/or Interoffice Channels. The charges applied are those nonrecurring charges contained in B7.1.3.A and B preceding.

5. Charges for MegaLink Service

a. Service Establishment Charge

(1) Per MegaLink Channel

	<u>Nonrecurring Charge</u>
(a) Each	\$600.00

Note: Refer to B7.1.2.A.7 of this Tariff for description of MegaLink Service channels.

b. Service Change Charge

(1) Per MegaLink Service Channel

	<u>Nonrecurring Charge</u>
(a) For Inside Moves, each	\$350.00
(b) Per Transfer of Responsibility, each	350.00

Note: Refer to B7.1.2.A.7 of this Tariff for description of MegaLink Service channels.

c. Premises Visit Charge

	<u>Nonrecurring Charge</u>
(1) Per Digital Local Channel or for an Inside Move	
(a) Per Visit	\$35.00

Note: This charge is applicable to additional stations installed subsequent in a building.

B7.3 MEGALINK CHANNEL SERVICE

B7.3.1 General

- C. This service is available within a LATA from wire centers where appropriate digital facilities are available as determined by the Company. Service inquiries will be necessary to determine availability. Special Construction charges for MegaLink Service will apply as specified in B7.1 preceding.

B7.3.2 Application Of Rates

- A. Monthly rates as specified in B7.3.4 following apply for each MegaLink Channel Service according to the system capacity of voice grade equivalent channels in each package. These rates apply regardless of the number of voice grade circuit equivalents within each package that are actually activated by the customer at a point in time. In addition, rates and charges for associated MegaLink Service in B7.1 of this Tariff are applicable.
- C. Rates and charges specified in other tariff sections for services such as Touch-Tone, Custom Calling Service, etc., are in addition to the monthly rate for MegaLink Channel Services. Also, the rates and charges for other services that may be interconnected or extended beyond the basic MegaLink Channel Service, such as off-premises stations, tie lines, Foreign Exchange Service, private line, etc., are in addition to the rates specified in this Tariff for those portions of channel services necessary to provide end-to-end service. Rates and charges for single MegaLink Service channels used to connect MegaLink Channel Services when used as part of the same communications system, will be as specified in B7.1 of this Tariff.

B7.3.4 Rates and Charges

D. Mileage Charges

Rates and charges for MegaLink Service as contained in B7.1 of this Tariff are applicable. Generally, one MegaLink Service channel is required for each group of 24 voice equivalent channels provided.

E. Automatic Protection Switching

Automatic Protection Switching for a DSI interface provides automatic DSI channel switching to a backup DSI channel upon primary facility failure. This feature requires purchase of an additional MegaLink Service channel from B7.1 of this Tariff for each backup channel required. Rates, charges and availability of this equipment will be negotiated with the customer on an individual case basis.